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INTRODUCTION

The Arab-American and Chaldean Council, Inc. entered into contracts #ADMIN-05-82002, ADMIN-06-82002, ADMIN-05-63002, ADMIN-06-63002, ADMIN-05-50001 and ADMIN-06-50001 with the Department of Human Services (DHS). Under these contracts the Arab-American and Chaldean Council was to provide interpretation and translation services, attend and facilitate clients' initial interviews with DHS, assist clients in filling out necessary forms for DHS eligibility determination and work requirements, assist DHS in communication with customers regarding child support or domestic violence issues, and to maintain client files for information, referral and/or advocacy services provided. The ADMIN-05-50001, ADMIN-06-50001, ADMIN-05-63002, ADMIN-06-63002 contracts each totaled \$154,550, and the ADMIN-05-82002, ADMIN-06-82002 each totaled \$725,000. The ADMIN-05 contracts covered the period October 1, 2004 through September 30, 2005, and the ADMIN-06 contracts covered the period October 1, 2005 through September 30, 2006. The Arab-American and Chaldean Council was reimbursed for actual costs incurred in providing these services, through submission of monthly billings to DHS.

SCOPE

The Office of Internal Audit performed an audit of the Arab-American and Chaldean Council for the period October 1, 2004 through December 30, 2005. The purpose of our audit was to determine if their billings were accurate, and if the costs charged were allowable per the terms of the contract and properly supported by the accounting records and other supporting documentation.

EXECUTIVE SUMMARY

Based on our audit, we concluded that the Arab-American Chaldean Council has a proper system of accounting and documentation in place to support the billings submitted to DHS, except for the salaries line item. The Arab-American and Chaldean Council billed administrative employees' salaries based on a time study, which is no longer an acceptable method of allocation. In addition, the employees whose time was charged directly to the programs did not indicate the time and activity spent on each program on their time sheets. Also, the Arab-American and Chaldean Council overbilled DHS \$720 for the ADMIN-05-82002 contract for a pension audit that was not an allowable cost under the terms of the contract.

Our report recommends that the Field Operations Administration (FOA) ensure that the Arab-American and Chaldean Council implements proper time keeping and salary allocation procedures. Our report further recommends that FOA initiate the process to recoup the \$720 that was overbilled.

AGENCY RESPONSE

The management of the Arab-American and Chaldean Council has reviewed the findings and recommendations included in this report. They indicated in a telephone conversation on May 24, 2006 that they are in general agreement with the report, and would develop and document an accurate methodology for allocating administrative salaries. They also indicated that they have already revised their time sheets to include certification by employees who work 100% on one program. In addition, they stated that they would refund the \$720 that was charged for the pension plan audit.

FINDINGS AND RECOMMENDATIONS

All Contracts

Salaries Expense

1. Arab-American and Chaldean Council did not properly document employees' time and activity. Federal Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*, states in part "Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professional and non-professional) whose compensation is charged, in whole or in part, directly to awards....The reports must reflect an *after the fact* determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards. Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization."

The Arab-American and Chaldean Council informed us that they billed for the administrators' salaries based on a complex system of allocation that took several factors into consideration, including type of service, number of staff, size of the program, and funding level. However, they had no documentation to support this allocation system. They provided us with a spread sheet that listed the percentage to be charged to each program, but had no documentation of how they arrived at those percentages. Administrative salaries must be allocated by a method that ensures that each program is charged its fair share of the cost throughout the year.

In addition, the employees who worked directly on the program did not document time and activity spent on each program on their time sheets. The employees working 100% of the time on a particular program may either indicate on the time

sheet they work 100% on one program, or prepare a quarterly statement certifying that they worked 100% of their time on a particular program.

The Arab-American and Chaldean Council had adequate documentation that their employees performed the services required by the contract, and the amounts charged for each employee appeared reasonable, therefore we are not recommending recoupment of any amounts billed for salaries.

WE RECOMMEND that FOA monitor to ensure that Arab-American and Chaldean Council develops and maintains appropriate timekeeping and salary allocation procedures to comply with OMB Circular A-122.

ADMIN-05-82002

Miscellaneous - Pension Audit Expense

2. The Arab-American and Chaldean Council overbilled DHS \$720 for the cost of a pension audit. This audit cost is not allowable under the terms of the contract for fiscal year 2005. However, for fiscal year 2006 the pension audit was included in the contract budget.

WE RECOMMEND that FOA initiate the process to recoup the \$720.